

April 26, 2021

ASAP Fluids Private Limited - Ratings reaffirmed; outlook revised to Positive, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	10.00	11.00	[ICRA]BBB+ (Positive); reaffirmed, outlook revised from Stable
Non-Fund Based - LC/BG	16.45	16.45	[ICRA]A2; reaffirmed
Derivative/Forward Cover	0.10	0.10	[ICRA]A2; reaffirmed
Total	26.55	27.55	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook takes into account the anticipated increase in the scale of operations and cash accruals of Gumpro Drilling Fluids Private Limited (GDFPL) from the setting up of a plant at Dammam, Saudi Arabia. The construction of the 24,000 MTPA¹ plant is complete and the same is expected to be commissioned and commence operations in Q2 FY2022. GDFPL entered into a joint venture agreement with Rawabi Oil & Gas with GDFPL having a 75% stake in the subsidiary in Saudi Arabia (Gumpro Drilling Fluids Saudi Arabia LLC). The company has been set up to cater mainly to Saudi Arabian Oil Company (Saudi Aramco), the national oil company of Saudi Arabia and other key clients in the Middle East. At present, the company supplies a few drilling products to Saudi Aramco through Rawabi Oil & Gas from its facility in India. With the setting up of this facility, GDFPL will get preference as a local supplier owing to which it i) will supply directly to Saudi Aramco and is therefore expected to earn a higher margin on its sales, ii) is expected to get orders for the larger quantities and iii) would be better placed to diversify its supplies to include other products, some of which are under trial with Saudi Aramco. While the company has sanctioned debt of Rs. 15 crore available for funding the project, it plans to fund the project entirely through equity and internal accruals. The timely commissioning and ramp up of operations at the facility in Saudi Arabia will remain important.

The reaffirmation of ratings takes into account the healthy operational and financial profile of the company characterised by healthy plant utilisation levels and steady revenue growth along with improvement in profitability over the last few fiscals driven by steady demand from the global oil and gas exploration and production industry as well as significant ramp up in the company's UAE-based subsidiary, viz. Gumpro Drilling Fluids FZE (GDFF). The plant utilisation for the company's operations in India were impacted due to a decline in demand from the Middle East with drilling rigs becoming inactive due to a paucity of crew following the pandemic-led travel restrictions. The same has led to a ~20% YoY de-growth in the company's operating income in FY2021 (at a standalone level). However, the same has been offset to a large extent by a healthy performance from ASAP Fluids Private Limited (AFPL) and GDFF. AFPL has more than doubled its operating income with a net profit of ~Rs. 6.5 crore² in FY2021 (as against a net loss of Rs. 1.0 crore in FY2020) as it is currently working on contracts from Oil and Natural Gas Corporation Limited (ONGC) and Oil India Limited (OIL). As per the unaudited results, GDFF has reported a ~19% YoY growth in operating income with healthy profit margins in FY2021. The company's financial profile is further supported by a The ratings are, however, constrained by the high working capital intensity in the company's business and high competition from globally established players. However, the same declined in FY2019 (and further in FY2020) owing to a decline in receivable and inventory days during the fiscal. The company's revenue growth remains exposed to the investment cycle of comfortable capital structure given limited reliance on external borrowings and healthy debt coverage metrics. The ratings continue to favourably consider the extensive experience of the promoters and the company's established market position in

¹metric tons per annum

²provisional results

the supply of drilling fluid additives, and its reputed customer base, which includes major global companies in the oilfield services space with strong credit profile. The ratings also take into account the company's strong in-house product development capabilities as evident from the advances made by the company in the oil-based additives category.

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Key rating drivers and their description

Credit strengths

Established track record in the drilling fluid business and strong in-house product development capabilities - GDFPL's promoters have considerable experience in the field of manufacturing drilling fluid additives, and both GDFPL and its subsidiary, AFPL, have employed experienced and technically qualified management personnel. Further, GDFPL has a long-proven track record and an established market position in the supply of drilling fluid additives, both in the domestic as well as international markets. The company also has its own R&D facilities supporting the development of new additives and formulations. The efficiency and strength of the in-house product development is evident from the advances made by the company in the oil-based additives category including the powder emulsifiers for which the company has received patents.

Reputed customer base with strong credit profile - The company's customer base includes some of the largest global oilfield services companies such as Baker Hughes Inc., Saudi Aramco (through a local agent, Rawabi Oil & Gas), Petroleum Development Oman (through a local agent, Bahwan Engineering Co.), Geomud Nigeria Ltd. and other large domestic companies such as Oil & Natural Gas Corporation Ltd. While there are no long-term contracts with the customers, GDFPL continues to receive repeat orders from its customers given its established track record of supply. The presence of such major global companies with strong credit profile as its customers is a credit positive for GDFPL.

Healthy financial profile characterised by comfortable capital structure and strong debt coverage metrics - The company reported a healthy YoY growth of 52.8% in operating income in FY2019 and 4.9% YoY growth in FY2020 at a consolidated level. As per the provisional and unaudited results, the company has witnessed a 5% YoY de-growth in operating income in FY2021 owing to the pandemic related obstructions, though the profitability remains healthy. The company's exports to the Middle East are backed by healthy order inflows on a consistent basis and the company continues to benefit from steady growth in revenue and profits at the company's UAE subsidiary that mainly supplies to Baker Hughes. As per provisional results, AFPL has witnessed a healthy turnaround in FY2021 having commenced work on the contracts from ONGC and OIL. AFPL has more than doubled its operating income and has reported a net profit of ~Rs. 6.5 crore in FY2021 (as against a 21.7% YoY de-growth in operating income in FY2020 and a net loss of Rs. 1.0 crore). GDFPL's capital structure remains comfortable with the majority of debt on the books of the company comprising of working capital facilities. The coverage indicators of GDFPL remain robust.

Expected increase in scale of operations with upcoming facility in Saudi Arabia - GDFPL's scale of operations are expected to increase significantly with the commissioning of its facility at Saudi Arabia under its subsidiary (75% stake), Gumpro Drilling Fluids Saudi Arabia LLC. The facility is expected to commence operations in Q2 FY2022. The 24,000 MTPA plant will mainly cater to Saudi Aramco, one of the key customers of GDFPL and is expected to generate sizeable revenues and healthy profits for GDFPL. The company will be supplying multiple products to Saudi Aramco and enjoy benefits that accrue to a local player within Saudi Arabia.

Credit challenges

Vulnerability to cyclical of the oil and gas E&P industry - The company's operations remain exposed to the cyclical in E&P expenditure, which varies with the general economic cycle as well as outlook for oil and gas prices. The company's revenue growth was impacted during a depressed international crude oil prices scenario; however, the same picked up following a recovery in the crude oil prices. The same is reflected in the YoY increase in the monthly rig count in FY2018 and FY2019 in GDFPL's key markets viz. USA, Middle East, and Africa. Nonetheless, the geographical diversification of the company's sales partly mitigates this risk.

Exposed to foreign exchange and input price fluctuation risks - The high share of exports in the company's revenue mix leads to exposure to foreign currency fluctuation risk; although the same is mitigated to an extent due to part imports of raw materials. The major raw materials for the company are procured through a mix of imports and indigenous procurement. The operations of the company remain vulnerable to availability and also adverse fluctuations in the prices of the key raw materials.

High level of competition from established global players - Since the company mainly targets the export markets for its manufactured portfolio of products, it also faces competition from the large global manufacturers of drilling fluid additives in Europe and North America, as well as competition from a number of smaller players across various geographies, including China and India.

High working capital intensity - The company's working capital intensity remains high due to high inventory and debtor days. However, the working capital intensity has declined over the last few fiscals, going down from 44% in FY2017 to 27% in FY2020 following a decline in the collection period and inventory days.

Liquidity position: Adequate

GDFPL has been generating sizeable cash accruals and cash flow from operations supported by healthy profitability and decline in working capital intensity over the last few fiscals. The liquidity profile of the company is further supported by adequate buffer of unutilised working capital limits and healthy cash balances of ~Rs. 34 crore as of March 31, 2021. The company is undertaking a capex of ~Rs. 60 crore for its upcoming greenfield manufacturing facility in Saudi Arabia, of which ~Rs. 45 crore has been incurred so far. While the company has sanctioned debt of Rs. 15 crore for funding the same, it is expected to fund the entire project through equity. The company has also received Rs. 15 crore of equity from its JV partner, Rawabi Oil & Gas.

Rating sensitivities

Positive factors - Commissioning of the facility at the Saudi Arabia within the expected timeline and healthy ramp up of operations leading to increase in scale and improvement in profitability

Negative factors - Sustained decline in profit levels and cash accruals

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Gumpro Drilling Fluids Private Limited. As on March 31, 2020, the Company had four wholly-owned subsidiaries that are enlisted in Annexure-2.

About the company

ASAP Fluids Private (AFPL) supplies drilling fluids and offers allied on-site engineering services to customers that are involved in the exploration and production of oil & natural gas. AFPL was incorporated in February 2010, when its parent company GDFPL spun off its services division to form a separate retail drilling fluids services company. AFPL has been operational since December 2010. It has engineering support facility and warehouses near JNPT Port (Mumbai), Ahmedabad (Gujarat) and Kakinada (Andhra Pradesh).

Key financial indicators (audited)

AFPL	FY2019	FY2020
Operating Income (Rs. crore)	18.6	14.6
PAT (Rs. crore)	0.1	-1.0
OPBDIT/OI (%)	0.5%	-4.6%
PAT/OI (%)	0.7%	-6.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5
Total Debt/OPBDIT (times)	7.3	-6.8
Interest Coverage (times)	0.5	-1.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes, and Amortisation

About the parent (GDFPL)

Gumpro Drilling Fluids Private Limited (GDFPL) was established in 1995 as Gumpro Chem Bombay, a proprietorship concern, and reconstituted as a private limited company in 2008 under its present name. The company is promoted by Mr. Anand Gupta. GDFPL primarily manufactures drilling fluid (also referred to as drilling mud) additives used to facilitate the process of drilling oil and/or natural gas from hydrocarbon reserves, both onshore and offshore. In February 2010, GDFPL spun off its services division to form a subsidiary, ASAP Fluids Private Limited (AFPL), which provides the supply of drilling fluids and onsite engineering services to customers involved in the E&P for oil and natural gas. In FY2015, the company commissioned a subsidiary in UAE, viz. Gumpro Drilling Fluids FZE (GDFF), for manufacturing powder-based additives. Currently, the company is setting up a greenfield manufacturing facility in Saudi Arabia to cater to the local players in the region directly. The facility is expected to commence operations in Q2 FY2022.

Key financial indicators (audited)

GDFPL (Consolidated)	FY2019	FY2020
Operating Income (Rs. crore)	191.7	201.1
PAT (Rs. crore)	31.3	27.7
OPBDIT/OI (%)	22.2%	18.4%
PAT/OI (%)	16.3%	13.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.5	0.7
Interest Coverage (times)	17.3	17.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes, and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument				Current Rating Date & Rating in FY2022	Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					26-Apr-21	-	20-Mar-20	12-Feb-19
1	Cash Credit	Long term	11.00	-	[ICRA]BBB+ (Positive)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+(SO) (Stable)
2	Non-Fund Based Limits	Short term	16.55	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2(SO)
3	Term Loan	Long Term	-	-	-	-	-	[ICRA]BBB(SO) (Stable); withdrawn

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	11.00	[ICRA]BBB+ (Positive)
NA	Non-Fund Based Limits	NA	NA	NA	16.55	[ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
ASAP Fluids Private Limited	100%	Full Consolidation
Gumpro Drilling Fluids FZE	100%	Full Consolidation
Gumpro Drilling Fluids Saudi Arabia LLC	100%*	Full Consolidation
ASAP DMCC	100%	Full Consolidation

Source: Company; *GDFPL's ownership in Gumpro Drilling Fluids Saudi Arabia LLC has reduced to 75% following the JV agreement with Rawabi Oil & Gas in FY2021

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Ankit Patel

+91 79 4027 1509

ankit.patel@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Anubha Rustagi

+91 22 6169 3341

anubha.rustagi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



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